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ABSTRACT

This document provides teaching guidelines and student material for a unit intended for use in high school business, consumer, or home economics programs. Time allotment is from four to six hours of classroom time. The objective of this capsule is to help students understand the basic functions of and services provided by three types of financial institutions: commercial banks, savings and loan associations, and credit unions. The material is divided into two sections. Section I explains how each type of institution is organized, while Section II identifies many services each offers and explains some of the recent changes that have taken place. Twelve learning activities emphasize comparing the three kinds of financial institutions through reading, charting, answering questions, drawing cartoons, making posters, collecting newspaper ads, interviewing, and writing letters. Six supplementary activities include doing research, preparing a bulletin board, writing a play, and summarizing a newspaper article. The teacher's guide provides advance preparation information, keys to activities and tests, a bibliography, and copies of all worksheets and assessments. (CK)

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FINANCIAL INSTITUTIONS INVESTIGATED

TEACHER'S GUIDE

Developed by: Elaine Turner

As Part of Project COST
ESEA Title IV
Kansas State Dept. of Education
USD 449
Easton, KS 66020

SP 012 749

FINANCIAL INSTITUTIONS INVESTIGATED

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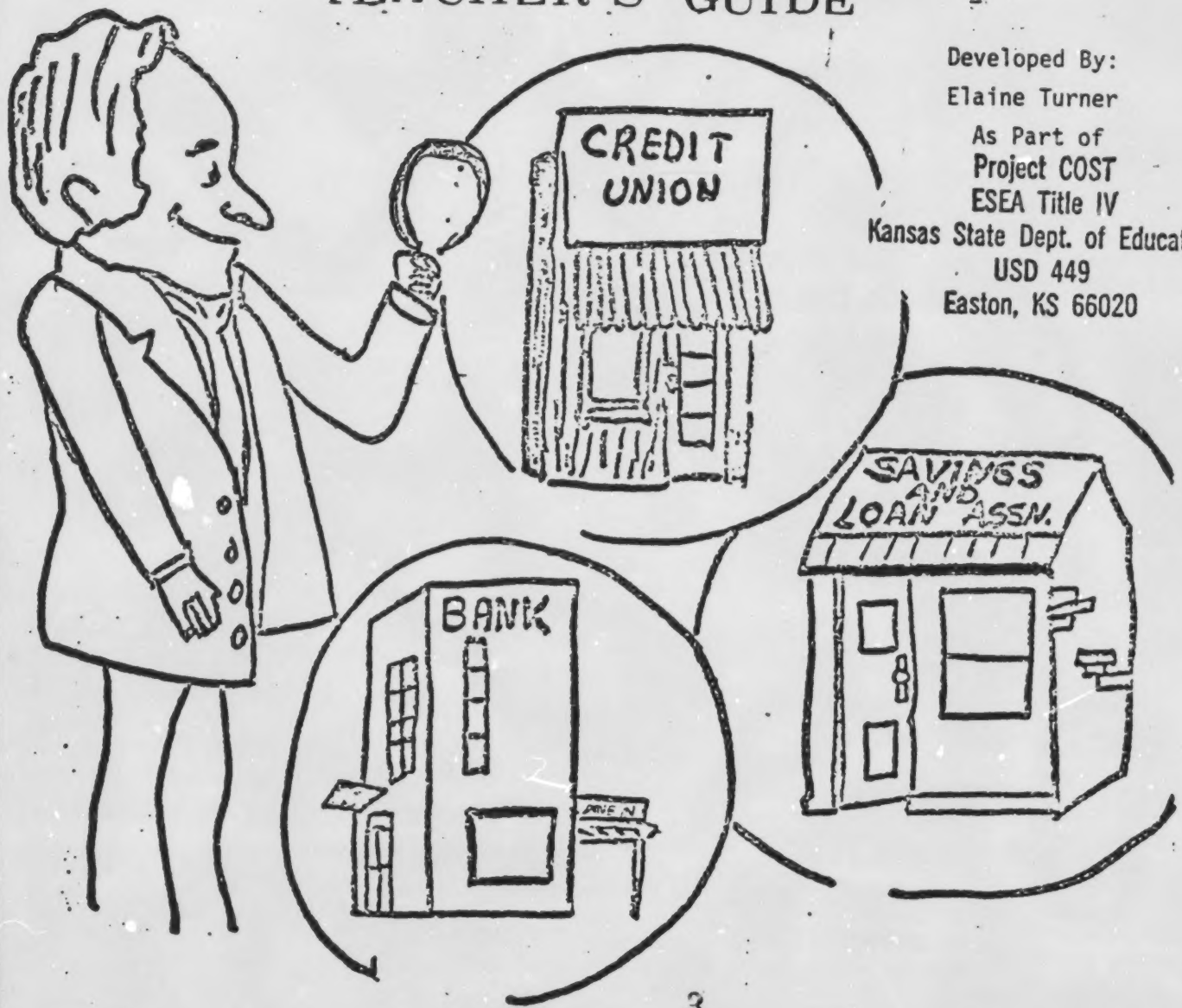


RESUME

Publication Date: May, 1979 Level/Subject: High School Business

Title: Financial Institutions Investigated

Author: Elaine Turner

This capsule will introduce students to three types of financial institutions, commercial banks, savings and loans, and credit unions. The first section explains how each is organized; the second section identifies many services that each financial institution offers. It also explains some of the recent changes that have taken place, such as NOW accounts, share drafts, and automatic transfer accounts. This capsule is designed for the average high school student. It is particularly appropriate for business classes. Students who already have some knowledge of savings accounts and checking accounts will have better success with the capsule than those who do not. They should also have some background in business letter writing. The estimated completion time is four to six hours.

SPECIAL INSTRUCTIONS

The activity sheets that accompany the capsule should be kept in order in the expandable folder at the front of the classroom. These have been duplicated on different colors to aid the student in finding the appropriate sheet.

You will need to provide some supplies:

Thirteen index cards are needed for Activity 7. On each card print one of the following services:

savings accounts
loans
financial counseling
travelers checks
money orders
savings bonds
group discount buying
payroll deductions
savings plans
newsletters to members
loans for homebuilding buying, and remodeling
student loans
safe-deposit boxes
checking accounts

For Activity 8 you will need to provide poster-making materials such as paper, felt-tip markers, rulers, etc.

For Activity 9 newspaper ads of financial institutions should be collected. Be sure you have a good variety representing all three institutions. If you wish, students can be asked well in advance to watch for ads in newspapers they receive at home. After Activity 9 has been checked, be sure to keep them on file for use in the next capsule, Choosing a Financial Institution.

Activities 11 and 12 will require some advance preparation by you.

1. Make a list of financial institutions in your immediate vicinity to which your students could easily visit. It is suggested that you list as many as possible. These could be duplicated so each student would have a copy of the list, or you could have only one list from which the students make their choice. In any case, try to have only one student per financial institution if possible. Be sure each type of financial institution has at least one visit.

2. Prepare a list of financial institutions within a wider area to which your students could write for information. A listing of institutions and other helpful publications can be obtained from the following sources:

The Kansas Bankers Association
707 Merchants National Building
Topeka, Kansas 66612
Phone (913) 235-3443
(also ask them or your local bank about The Young Bankers of Kansas (YBOK) Education in Personal Economics Program)

The American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D. C. 20036

National Credit Union Association
1617 Sherman
Madison, Wisconsin
Incoming WATS 800-356-9140

United States League of Savings Associations
111 E. Wacker Dr.
Chicago, Illinois 60601

3. Write a "cover-letter" explaining the purpose of the questionnaire for students to include with their inquiry of Activity 12.

4. Compose a form letter that students may use to thank the institution's officer who replied to their letter or to whom they spoke.

5. Keep the results of the interview for use in Choosing a Financial Institution.

Several books and pamphlets that will be helpful in completing the quest activities are listed in the Bibliography. You should probably suggest sources of information to your students from whatever publications are available to you.

The pre-test accompanying this capsule will take students approximately 15 to 20 minutes to complete. Be sure to emphasize to students that this pre-test is only to find out what they already know about financial institutions and that it will in no way affect a grade.

The record sheet is provided for recording grades, completion dates, comments, etc.

Students should complete the post-test in approximately 30 minutes.

Key to Pre-Test

1. C
2. A
3. B
4. B
5. B
6. A
7. B
8. B
9. C
10. A

11. Savings account - Deposits made in a financial institution that are expected to remain there for a time.

12. Checking account - Money in a bank account that can be withdrawn at any time by writing a check.

13. Interest - A charge made for the use of someone else's money.

14. Share drafts - Check-like instruments offered by credit unions.

15. Profit - The amount of income a business has left after paying its expenses.

16. Deposit - Money placed in a bank account

17. Withdrawal - Money taken out of a bank account

ACTIVITY I Key

To help you review, fill in the following chart. Instead of writing on the page that is included in the capsule, find Activity I Worksheet in the expandable folder at the front of the room. As you fill out the chart, you may need to re-read some parts of this section. Good luck!

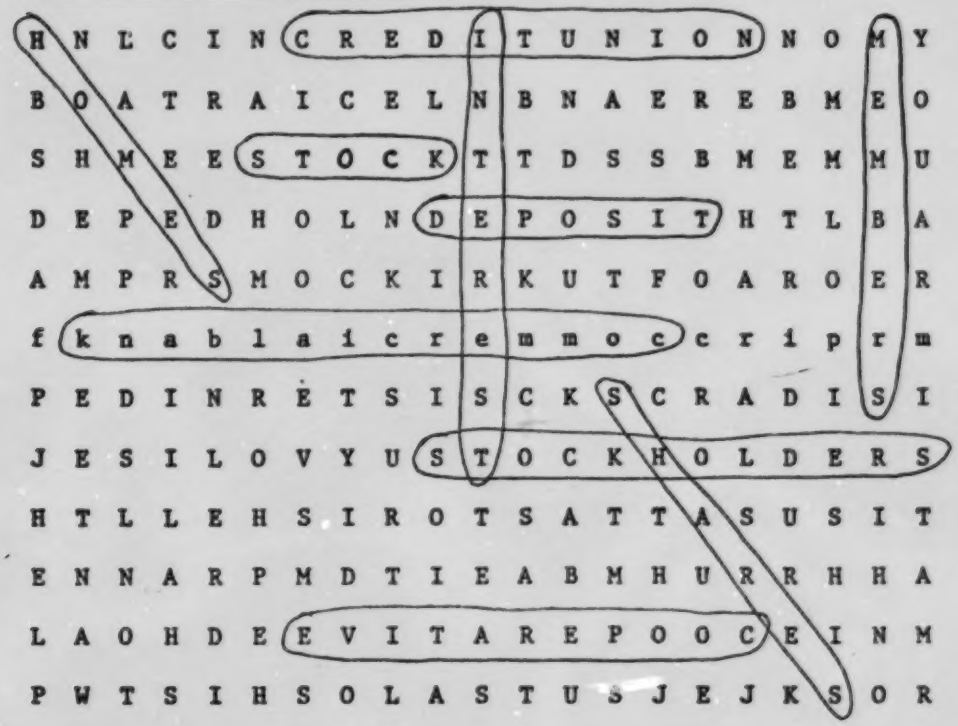
	Commercial Bank	Savings and Loans	Credit Unions
Ownership	Owned by stockholders	Owned by stockholders	Owned by members
Origin	Originated to help businesses get started	Originated to encourage private ownership of homes	Originated to provide low-cost consumer loans
Organization	Organized as a business stockholders receive profit	Organized as a business Each depositor is a shareholder	Organized as a co-operative Members receive profits

Key to Activity II

1. interest
2. deposit
3. commercial bank
4. stockholders
5. credit union
6. homes
7. members
8. shares
9. stock
10. co-operative

ACTIVITY III

Find and circle the 10 terms that you used to fill in the blanks of Activity II. Words may be placed vertically, horizontally (forward and backward), and diagonally.


H N L C I N C R E D I T U N I O N N O M Y
B O A T R A I C E L N B N A E R E B M E O
S H M E E S T O C K T T D S S B M E M M U
D E P E D H O L N D E P O S I T H T L B A
A M P R S M O C K I R K U T F O A R O E R
f k n a b l a i c r e m m o c c r i p r m
P E D I N R E T S I S C K S C R A D I S I
J E S I L O V Y U S T O C K H O L D E R S
H T L L E H S I R O T S A T T A S U S I T
E N N A R P M D T I E A B M H U R R H H A
L A O H D E E V I T A R E P O O C E I N M
P W T S I H S O L A S T U S J E J K S O R

Activities 4 and 5

Answers will vary

Key to Self-Check - Section I

1. commercial bank
   savings and loans
   credit unions

2. They are organized as a co-operative. Members pool their money; they own the insitution, organize and run it themselves.

3. They were organized to encourage saving and private ownership of homes.

4. is

Key to Activity 6

Services offered by all three financial institutions:
traveler's checks
savings bonds
savings accounts
money orders

(There may be other possible answers that do not appear in the capsule.)

Service offered only by commercial bank:
checking account

Key to Activity 7

Services provided by commercial bank

checking accounts	savings accounts
money orders	safe-deposit boxes
savings bonds	traveler's checks
loans	student loans
financial counseling	

Services provided by savings and loan:

savings accounts	money orders
student loans	loans for home building, buying, and remodeling
savings bonds	
traveler's checks	safe-deposit boxes

Services provided by a credit union:

savings accounts	loans
money orders	financial counseling
traveler's checks	savings bonds
newsletters to members	group discount buying
payroll deduction savings plans	

Key to Activity 9

Answers will vary. Each student should have at least one ad from each institution and a total of eight ads.

Key to Activity 10

1. B
2. C
3. A
4. E
5. D
6. G
7. K
8. J
9. I
10. H
11. F

Key to Activity 11

Check to see that responses are given to each question and that the top portion of the activity sheet has been filled in. Be sure each student writes a thank-you letter.

Key to Activity 12

Check letters for proper form, grammar, punctuation, and capitalization. Some additional questions that could be added to the questionnaire are:

May traveler's checks be purchases through your institution?

Are money orders available?

May savings bonds be purchased here?

Does the institution have credit card services?

Key to Self-Check (Section 2)

1. savings & loans
2. commercial banks
3. credit unions
4. credit unions, commercial banks
5. commercial banks, credit unions, and savings and loans

Key to Post-Test

1. B
2. A
3. C
4. A
5. C
6. B
7. C
8. B
9. A

10. T
11. F
12. T
13. T
14. F
15. F
16. F
17. F
18. C
19. B
20. B

21. C
22. D
23. A
24. B

Key to Qeust Activity I

1. 1/4%

2. in recognition of the major role savings associations play in supplying funds for the housing market and because they are restricted from most of the financial activities performed by banks.

3. check-like accounts
   broader lending powers

4. 82%

FINANCIAL INSTITUTIONS INVESTIGATED

POST-TEST

Matching. At the left of each item in Column I place the letter of the financial institution in Column II that Column I describes. Each institution in Column II may be used more than once.

	COLUMN I	COLUMN II
_____1.	Owned by depositors	A. Commercial Bank
_____2.	owned by stockholders	B. Savings and Loan
_____3.	Owned by members	C. Credit Union
_____4.	Originated to help commercial businesses get started	
_____5.	Originated to provide members with low-cost loans	
_____6.	Originated to stimulate private ownership of homes	
_____7.	Organized as a co-operative; members receive profit	
_____8.	Organized as a business; each depositor is shareholder	
_____9.	Organized as a business; stockholders receive profit	

True - False. Place the letter T in the blank preceeding each true statement; place the letter F in front of those statements which are false.

_____10. Some credit unions now offer checking account services.

_____11. Most home loans are made by commercial banks.

_____12. You may rent a safe-deposit box at some savings and loans.

_____13. A commercial bank is organized as a business.

_____14. A negotiable order of withdrawal (NOW account) has been available at savings and loans for over 20 years.

True-False, continued.

_____15. There is no charge made for traveler's checks other than the value of the check.

_____16. Three serviced offered by commercial banks are share accounts, safe-deposit boxes, and traveler's checks.

_____17. Credit unions were organized primarily to grant business loans.

Multiple Choice. Place in the blank preceeding each question the letter of the item that best answers the question.

_____18. Which is the fastest growing financial institution in the nation?

A. Commercial Bank
B Savings and Loan Association
C. Credit Union

_____19. Which of the following is always offered by Credit Unions?

A. Real estate loans
B. Consumer loans
C. Business loans

_____20. What are credit union savings called?

A. deposits
B. shares
C. profits
D. stock

Matching. Place the letter of the definition from Column II in the blank preceding the service in Column I that it defines.

Column I	Column II
_____21. Safe-deposit boxes	A. Offering merchandise for sale at wholesale prices as a service
_____22. Money Orders	B. A plastic card that allows you to make deposits, withdrawals, or transfer funds at any hour of the day or night by inserting a card into special "teller machines" and punching in your personal ID number.
_____23. Group discount	C. Metal containers built in a financial institution's vault and used by the customer to store any item he wishes--usually valuables and hard-to-replace documents
_____24. Money cards	D. Substitute cash which is easily negotiable and useful for making payments through the mail if you don't have a checking account.

RECORD SHEET

FINANCIAL INSTITUTIONS INVESTIGATED

Students' Names

	Pre-Test	Activity 1	Activity 2	Activity 3	Activity 4 or Activity 5	Self-Check	Comments

RECORD SHEET

FINANCIAL INSTITUTIONS INVESTIGATED
Section 2

Students' Names

		Activity 6 or 7 or 8	Activity 9	Activity 10	Activity 11 or 12	Self-Check	Quest Activities	Post-Test	Comments

BIBLIOGRAPHY

A Classroom Guide to Credit Unions, Credit Union National Association, Inc., P. O. Box 431, Madison, Wisconsin 53701

Consumer Handbook to Credit Protection Laws, Board of Governors of Federal Reserve System, Washington, DC 20551, December, 1978

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Dritas, Linda, Understanding Banks and Banking, J. Weston Walch, 1978

Huffman, Twiss, and Williams, Math for Business Careers, 4th Edition, McGraw-Hill Book Company, New York, N. Y.

MMI Memo, Spring, 1979, Money Management Institute, Household Finance Corporation, 2700 Sanders Road, Prospect Heights, Illinois 60070

Troelstrup, Arch W.; Hall, E. Carl; The Consumer in American Society, 6th Edition, McGraw-Hill Book Company, New York, N. Y.

APPENDIX

This appendix contains copies of all worksheets and assessments. These copies may be used to make your own classroom quantity copies. To use, unstaple the sides of the teacher's guide and remove the worksheet and assessment pages. Restaple the remaining pages of the teacher's guide.

FINANCIAL INSTITUTION INVESTIGATED

PRE-TEST

Multiple Choice — Place in the blank preceding each question the letter of the item that best answers the question or completes the statement.

_____ 1. Which is the fastest-growing financial institution in the nation?

a. Commercial Bank
b. Savings and Loan Assn.
c. Credit Union

_____ 2. What are three services offered by commercial banks?

a. Savings accounts, financial counseling and checking accounts
b. Share accounts, safe-deposit boxes and traveler's checks
c. checking accounts, money orders and group buying discount

_____ 3. The basic purpose for which savings-loans were organized is to:

a. provide small, short-term loans.
b. provide money for homes loans.
c. provide money for business loans.

_____ 4. Which financial institution has recently begun to offer NOW accounts?

a. Commercial Banks
b. Savings and Loan
c. Credit Unions

_____ 5. Which of the following is always offered by Credit Unions?

a. Real Estate Loans
b. Consumer Loans
c. Business Loans

FINANCIAL INSTITUTIONS INVESTIGATED

PRE-TEST (CON'T)

_____ 6. How is a commercial bank organized?

a. as a business
b. as a co-operative
c. as a government agency

_____ 7. How is a credit union organized?

a. as a business
b. as a co-operative
c. as a government agency

_____ 8. What are credit union savings called?

a. deposits
b. shares
c. profits
d. stock

_____ 9. In which financial institution do you have to be a member before you can borrow or save there?

a. Commercial Bank
b. Savings and Loan
c. Credit Union

_____ 10. Which institutions were organized primarily to grant business loans?

a. Commercial Bank
b. Savings and Loan
c. Credit Union

FINANCIAL INSTITUTIONS INVESTIGATED (CONT.)

Pre-test

Matching:

Place the letter of the definition from Column II in the blank before the term in Column I that it defines.

Column I		Column II
_____ 11.	savings account	A. To put money into an account.
_____ 12.	checking account	B. A fee for the use of a checking account.
_____ 13.	deposit	C. Money taken out of an account.
_____ 14.	withdrawal	D. An account in which money may be taken out on the demand of the depositor.
_____ 15.	interest	E. The cost for the use of money.
		F. An account where money is deposited and earns interest.

Name _____ Date _____

FINANCIAL INSTITUTIONS INVESTIGATED

POST-TEST

Matching. At the left of each item in Column I place the letter of the financial institution in Column II that Column I describes. Each institution in Column II may be used more than once.

	COLUMN I	COLUMN II
_____1.	Owned by depositors	A. Commercial Bank
_____2.	owned by stockholders	B. Savings and Loan
_____3.	Owned by members	C. Credit Union
_____4.	Originated to help commercial businesses get started	
_____5.	Originated to provide members with low-cost loans	
_____6.	Originated to stimulate private ownership of homes	
_____7.	Organized as a co-operative; members receive profit	
_____8.	Organized as a business; each depositor is shareholder	
_____9.	Organized as a business; stockholders receive profit	

True - False. Place the letter T in the blank preceeding each true statement: place the letter F in front of those statements which are false.

_____10. Some credit unions now offer checking account services.

_____11. Most home loans are made by commercial banks.

_____12. You may rent a safe-deposit box at some savings and loans.

_____13. A commercial bank is organized as a business.

_____14. A negotiable order of withdrawal (NOW account) has been available at savings and loans for over 20 years.

True-False, continued.

_____15. There is no charge for traveler's checks other than the value of the check.

_____16. Three services offered by commercial banks are share accounts, safe-deposit boxes, and traveler's checks.

_____17. Credit unions were organized primarily to grant business loans.

Multiple Choice. Place in the blank preceeding each question the letter of the item that best answers the question.

_____18. Which is the fastest growing financial institution in the nation?

A. Commercial Bank
B Savings and Loan Association
C. Credit Union

_____19. Which of the following is always offered by Credit Unions?

A. Real estate loans
B. Consumer loans
C. Business loans

_____20. What are credit union savings called?

A. deposits
B. shares
C. profits
D. stock

Name _____ Date _____

MATCHING

Place the letter of the difinition from Column II in the biank preceding the service in Column I that it defines.

ACTIVITY 10

Column I

_____ 1. Checking account

_____ 2. Savings account

_____ 3. Safe-deposit boxes

_____ 4. Money Orders

_____ 5. Traveler's Checks

_____ 6. Savings Bonds

_____ 7. Student Loan

_____ 8. Financial Counseling

_____ 9. Money cards

_____ 10. Group discount

_____ 11. Payroll deduction savings plans

Column II

A. Metal containers built in a financial institution's vault and used by the customer to store any item he wishes--usually valuables and hard-to-replace documents.

B. often called a demand deposit because funds are paid out of the account at the depositor's demand.

C. Are often called time deposits because they are expected to remain in the bank linger than demand deposits

D. Sold through financial institutions as a useful way of carrying money

E. Substitute cash which is easily negotiable and useful for making payments through the mail if you do not have a checking account

F. A way in which a pre-arranged amount can be automatically taken out of your paycheck and deposited in a savings account.

G. Loans to the federal government. These may be purchased in various denominations and they earn interest.

H. Offering merchandise for sale at wholesale prices as a service.

I. A plastic card that allows you to make deposits, withdrawals or transfer funds at any hour of the day or night by inserting a card into special "teller machines" and punching in your personal ID number.

J. Services from which customers may obtain advice regarding financial matters and investiments

K. Funds made available for education.

Name _____ Date _____

ACTIVITY I

Use the information from the capsule to complete this chart. As you fill out the chart, you may need to re-read some parts of this section. Good luck!

	Commercial Bank	Savings and Loans	Credit Unions
Ownership	Owned by_____	Owned by _____	Owned by_____
Origin	Originated to help_____ _____	Originated to _____ _____	Originated to _____ _____
Organization	Organized as a_____ _____receive profit	Organized as a _____ Each _____is a shareholder	Organized as a _____ _____receive profits

Self-Check Section 1
Financial Institutions Investigated

Name _____ Date _____

School _____ Teacher _____

Answer the following questions in the spaces provided. Have them checked by your teacher before you go on to Section 2.

1. List the three major financial institutions in the United States.

_____

_____

_____

2. Briefly describe how credit unions are organized.

_____

_____

_____

_____

3. What is the main purpose for which savings and loans were organized?

_____

4. A commercial bank _____ (is or is not) a business.

Self-Check (Use Self-Check, Section 2 Worksheet)

NAME THE FINANCIAL INSTITUTION(S)

1. Some offer NOW accounts _____.
2. Automatically transfers from savings to checking as you write checks so your deposits will earn interest _____.
3. Allows customers to write share drafts on their share accounts _____.
4. Provide financial counseling _____ ____and _____.
5. Sell traveler's checks _____,_____and _____.

Name _____ Date _____

Activity II
Write the answers that will complete the following sentences, selecting your answers from the following list of words. Not all the terms will be used. Turn Activity II in to your teacher and have it checked before going on to Activity III.

creditors	homes	commercial bank
interest	members	shares
automobiles	co-operative	profits
credit union	deposit	corporation
stock	stockholders	

1. An amount that borrowers pay lenders for the use of the lender's money is _____.
2. A sum of money that a company or individual puts into a commercial bank's checking or savings account is a _____.
3. A "department store" of finance. There are 14,000 of these in the United States: _____ _____.
4. A commercial bank is owned by its _____
5. The fastest growing financial institution in the nation is the _____ _____.
6. Savings and loan associations encourage saving and private ownership of _____.
7. A credit union is-owned by its _____.
8. Credit union savings are called _____.
9. At a savings and loan, deposits are actually shares of _____ in the company.
10. An organization of people who pool their money in an institution or store which they own, organize, and run is a _____.

Name _____ Date _____

ACTIVITY III

Find and circle the 10 terms that you used to fill in the blanks of Activity II. Words may be placed vertically, horizontally (forward and backward), and diagonally.

H N L C I N C R E D I T U N I O N N O M Y

B O A T R A I C E L N B N A E R E B M E O

S H M E E S T O C K T T D S S B M E M M U

D E P E D H O L N D E P O S I T H T L B A

A M P R S M O C K I R K U T F O A R O E R

F K N A B L A I C R E M M O C C R I P R M

P E D I N R E T S I S C K S C R A D I S I

J E S I L O V Y U S T O C K H O L D E R S

H T L L E H S I R O T S A T T A S U S I T

E N N A R P M D T I E A B M H U R R H H A

L A O H D E E V I T A R E P O O C E I N M

P W T S I H S O L A S T U S J E J K S O R

(Activity 11 and 12 Worksheet)

Name of Institution Contacted _____
Address of Institution _____
Date of Interview (or Date letter mailed) _____

Person Interviewed _____

- -

1. Are savings accounts available? _____

2. What interest rate is paid on regular savings? _____

3. How often is interest computed (daily, monthly, etc.)? _____

4. What kinds of time deposit accounts (certificates of deposit) are available? and What interest rate does each pay?

   _____ _____

   _____ _____

   _____ _____

5. Are penalties charged for early withdrawals of savings from a certificate of deposit? _____

6. Are savings deposits insured? _____

7. Up to what limit? _____

8. What kinds of loans are offered? _____
   Home? _____
   Personal? _____
   Auto? _____

9. At this present date, what rate of interest would be charged (annual percentage rate) for a student loan? _____

10. Would additional charges be added for credit life insurance or is it automatically available without charge? _____

11. Are checking accounts available? _____

12. Is there a service charge, and if so how is it computed? _____

    _____

13. Is payroll deduction service offered? _____

14. Is financial counseling available? _____

15. Do you have safe-deposit boxes for rent? _____

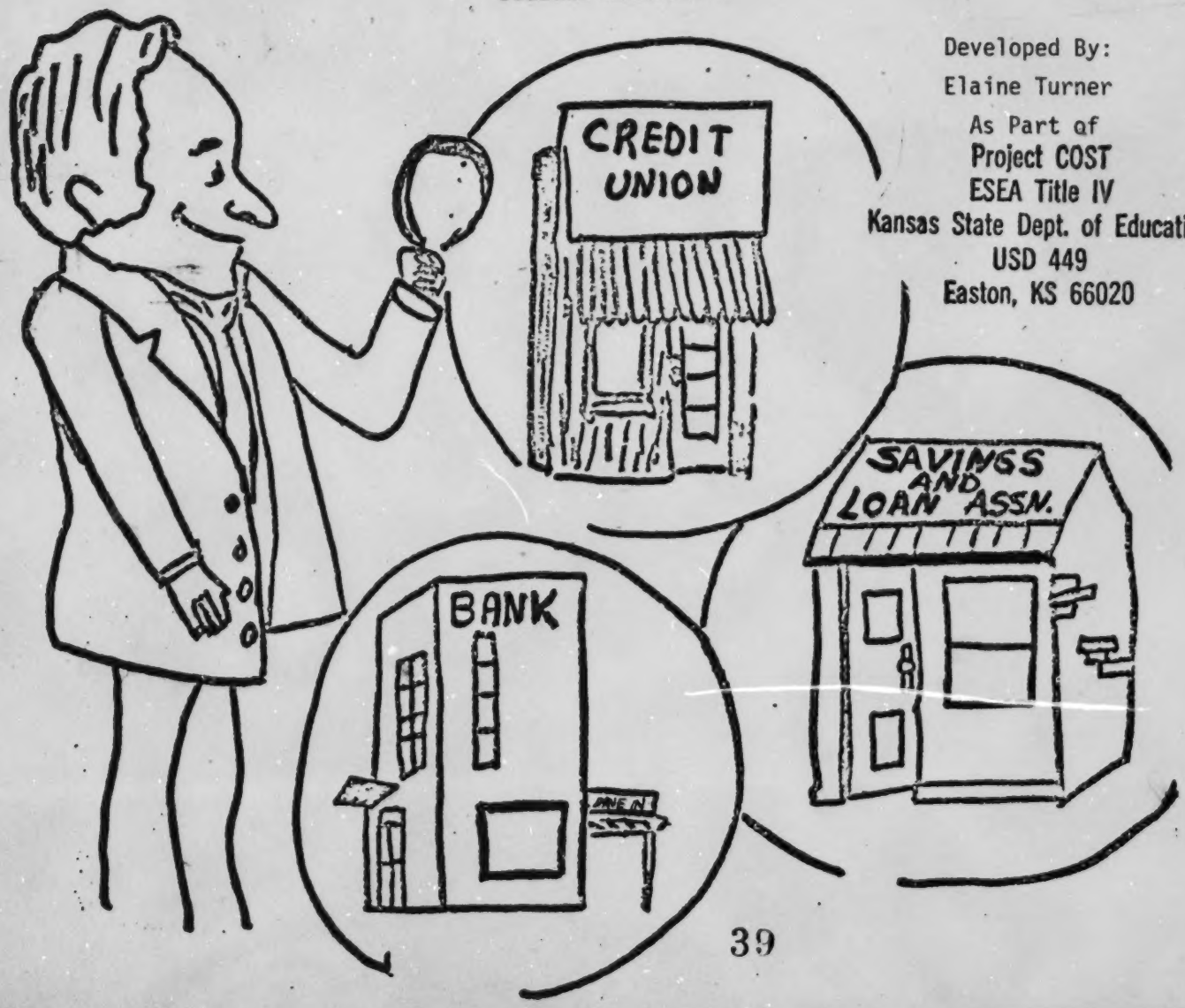
16. What are some services that are unique to your institution? _____

_____

FINANCIAL INSTITUTIONS INVESTIGATED

Student Material

Developed By:
Elaine Turner
As Part of
Project COST
ESEA Title IV
Kansas State Dept. of Education
USD 449
Easton, KS 66020



INTRODUCTION

Welcome to the world of high finance. For thousands of consumers, the mystery of money and banking is just that--a mystery. If you thought all financial institutions were the same--or too complicated to begin to understand, we want to do something about that problem. This capsule is a look at the way our financial institutions work, how they differ, how recent changes have made them more alike, and most important, how you, the consumer, can make the important decision of where to save and where to borrow.

After completing this capsule you will be able to:

1. Recognize the three most important financial institutions in the Midwest.

2. Analyze the basic functions of:
   a. commercial banks
   b. savings and loans
   c. credit unions

3. Identify the services provided by:
   a. commercial banks
   b. savings and loans
   c. credit unions

4. Recognize that changes are taking place within these financial institutions which affect the services available to the consumer.

5. Compare the way in which these three types of financial institutions are organized.

Before you begin, you will take a pre-test. This is planned to show what you already know about financial institutions. After your pre-test has been checked, your teacher will tell you which parts of the capsule you should complete.

Section 1

SECTION I

Financial institutions are not new. They originated in ancient times as places where wealthy citizens could keep their money safe when it wasn't needed. Many changes have taken place since that time. Financial institutions are still good places for keeping your money safe, but they do so much more! In this section you will learn about three different financial institutions--their basic purpose and a little bit about why they were organized.

At the end of this section you will be able to:

1. Recognize the three most important financial institutions in the Midwest.

2. Analyze the basic functions of:
   a. commercial banks
   b. savings and loans
   c. credit unions

3. Compare the way in which these three types of financial institutions are organized.

Commercial Banks

Commercial banks were founded primarily to help commercial businesses by lending them money to get started and to provide them with services to help them remain profitable. Commercial banks are businesses--owned by stockholders. Think of them in the same way you would any kind of store—let's say a music store. Instead of selling musical instruments and offering such services as music lessons and piano tuning, a bank "sells" money and offers financial services such as checking accounts, safe-deposit boxes, travelers checks, financial counseling, and lots more.

Most of the bank's profit comes from "selling" or "renting" money. Most of the money that customers put into checking and savings accounts is lent to other customers. On these loans, borrowers are charged interest. (Interest is the price paid for the use of someone else's money.) Some of this interest is used to pay their depositors interest on savings accounts. Some is used to provide other financial services. The rest is profit for the stockholders.

Commercial banks are probably regulated by the government more than any other business. In order to start a bank you must obtain special permission from the state or federal government. There are approximately 14,000 commercial banks in the U.S.

Savings and Loan Associations

The second financial institution you'll be studying is a savings and loan association which also may be called a building and loan, savings association, etc. Technically speaking, savings and loans are not banks. At a commercial bank each depositor is "owed" whatever money he puts on deposit. At a savings and loan, customers are not just depositors but part owners. Their deposits are actually shares of stock in the company. A savings and loan will always "buy" these shares back whenever the customer wishes to make a withdrawal. For example, Phil T. Rich makes a deposit on a form such as the one shown on the right of the next page.

When he later wants to sell his shares, he simply makes a savings withdrawal by filling out a form such as shown on the left.

ACCOUNT NO. 12345 LC ____ OC ____ TOTAL DEPOSIT $1000.00 CASH ____

SAVINGS DEPOSIT

DATE April 12, 1979 NAME Phil J. Rich ADDRESS 50 Snob Hill

CASH	1000 00
CHECKS	
TOTAL FROM OTHER SIDE	
TOTAL	
LESS CASH RECEIVED	
NET DEPOSIT	1000 00

CODE	ACCOUNT NUMBER	TELLER	DATE	OLD BALANCE	DEPOSIT	NEW BALANCE

ACCOUNT NUMBER 12345

SAVINGS WITHDRAWAL

DATE May 15, 1979

AMOUNT WITHDRAWN

CHECK X CASH ____ $1,000.00

[X] MAKE CHECK PAYABLE TO Phil J. Rich

CODE	ACCOUNT NUMBER	TELLER	DATE	OLD BALANCE	WITHDRAWAL	NEW BALANCE

The Undersigned Requests Withdrawal from the Account of the Undersigned and Acknowledges Receipt thereof

SIGNATURE Phil J Rich SIGNATURE Mrs. Phil J. Rich

ADDRESS 50 Snob Hill ADDRESS 50 Snob Hill

The main purpose of savings and loans is to provide money for the purchase of homes. They were founded to attract savings deposits from individuals so that money could be made available for home buyers. The money invested by the saver is lent to the borrower who wishes to buy, build, or modernize a home.

There are approximately 6300 savings and loan associations in the U.S.; they are also chartered and financed under public laws.

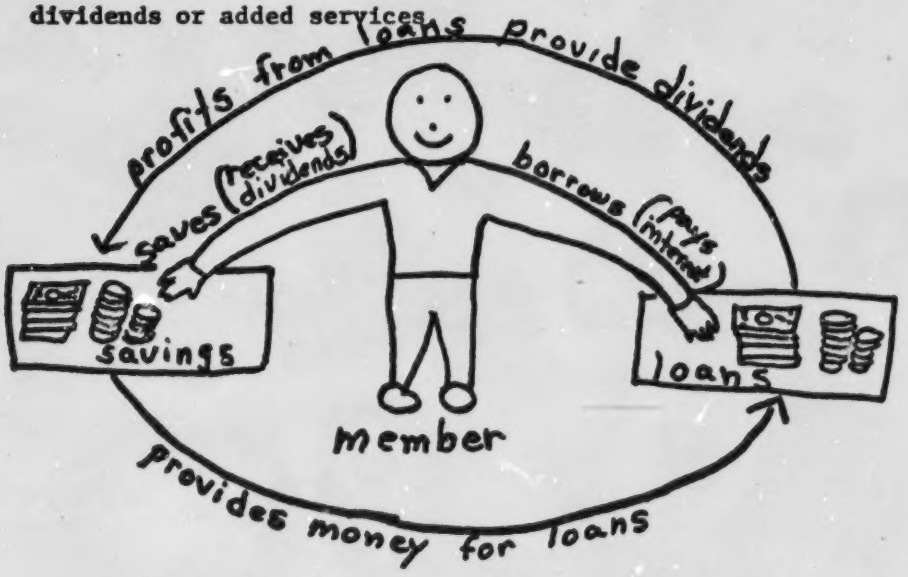
Credit Unions

The third financial institution to be examined is a credit union. These institutions are organized as a co-operative. This means a group of people pool their money together in an institution which they own, organize, and run. As with any co-op, you must be a member to take advantage of its services. In most cases, the members have some common bond. They may work for the same company, teach together, or belong to the same labor union or live in the same community. A small membership fee (usually $5) may be charged.

Many years ago, credit unions were looked upon as small rainy-day type operations, but now they rank as the fastest growing financial institution in the nation. Their original purpose was to provide personal consumer loans to their members. Common reasons for borrowing include old bills, taxes, medical expenses, autos, vacations, home equipment, education, weddings, and family emergencies.

A credit union savings account is called a "share account", and credit union savings are called "shares." Shares (savings) can be withdrawn at any time, either in person or by mail. Interest from your share account is paid to members in the form of dividends. The profit a credit union makes on investments and loans to members is also returned to members' accounts. That's what makes a credit union unique! There are no separate stockholders who receive portions of the income for themselves. Members receive the profit--either in the form of dividends or added services.

A credit union savings account is called a "share account", and credit union savings are called "shares." Shares (savings) can be withdrawn at any time, either in person or by mail. Interest from your share account is paid to members in the form of dividends. The profit a credit union makes on investments and loans to members is also returned to members' accounts. That's what makes a credit union unique! There are no separate stockholders who receive portions of the income for themselves. Members receive the profit—either in the form of dividends or added services.



Credit unions are owned and operated by the members who elect the board of directors. If you have $5 to $25 in the credit union you have as much voting power as someone with $25,000. Some of the larger credit unions hire professionals to manage the credit union, but many depend on volunteer labor from members who give their time and energy to run the institution.

Now complete the following activities...

ACTIVITY I

To help you review, fill in the following chart. Instead of writing on the page that is included in the capsule, find Activity I Worksheet in the expandable folder at the front of the room. As you fill out the chart, you may need to re-read some parts of this section. Good luck!

	Commercial Bank	Savings and Loans	Credit Unions
Ownership	Owned by_____	Owned by _____	Owned by_____
Origin	Originated to help_____ _____	Originated to _____ _____	Originated to _____ _____
Organization	Organized as a_____ _____receive profit	Organized as a _____ Each _____is a shareholder	Organized as a _____ _____receive profits

ACTIVITY II

From the expandable folder in the front of the room, select Activity II and III Worksheets (pink). Write the answers that will complete the following sentences, selecting your answers from the following list of words. Not all the terms will be used. Turn Activity II in to your teacher and have it checked before going on to Activity III.

creditors	homes	commercial bank
interest	members	shares
automobiles	co-operative	profits
credit union	deposit	corporation
stock	stockholders	

1. An amount that borrowers pay lenders for the use of the lender's money is _____.

2. A sum of money that a company or individual puts into a commercial bank's checking or savings account is a _____.

3. A "department store" of finance. There are 14,000 of these in the United States: _____ _____.

4. A commercial bank is owned by its _____

5. The fastest growing financial institution in the nation is the _____ _____.

6. Savings and loan associations encourage saving and private ownership of _____.

7. A credit union is owned by its _____.

8. Credit union savings are called _____.

9. At a savings and loan, deposits are actually shares of _____ in the company.

10. An organization of people who pool their money in an institution or store which they own, organize, and run is a _____.

ACTIVITY III

Find and circle the 10 terms that you used to fill in the blanks of Activity II. Words may be placed vertically, horizontally (forward and backward), and diagonally.

H N L C I N C R E D I T U N I O N N O M Y

B O A T R A I C E L N B N A E R E B M E O

S H M E E S T O C K T T D S S B M E M M U

D E P E D H O L N D E P O S I T H T L B A

A M P R S M O C K I R K U T F O A R O E R

F K N A B L A I C R E M M O C C R I P R M

P E D I N R E T S I S C K S C R A D I S I

J E S I L O V Y U S T O C K H O L D E R S

H T L L E H S I R O T S A T T A S U S I T

E N N A R P M D T I E A B M H U R R H H A

L A O H D E E V I T A R E P O O C E I N M

P W T S I H S O L A S T U S J E J K S O R

Select either Activity 4 or Activity 5 below. Supply your own paper for this activity. Please label and turn in to your teacher as soon as it is completed.

ACTIVITY 4

Compose a riddle for each of the financial institutions described in Section 1.

(Example: I am an agency of the Federal Government. I am responsible for seeing to it that food, cosmetic and drug items are safe for consumers. Who Am I?
Answer: Food and Drug Administration)

ACTIVITY 5

Draw three cartoons illustrating the origin or function of each of the three financial institutions you learned about. Be sure you show similarities or differences through your cartoons.

SELF-CHECK

Answer the following questions on the green activity sheet and have them checked by your teacher before you go on to Section II.

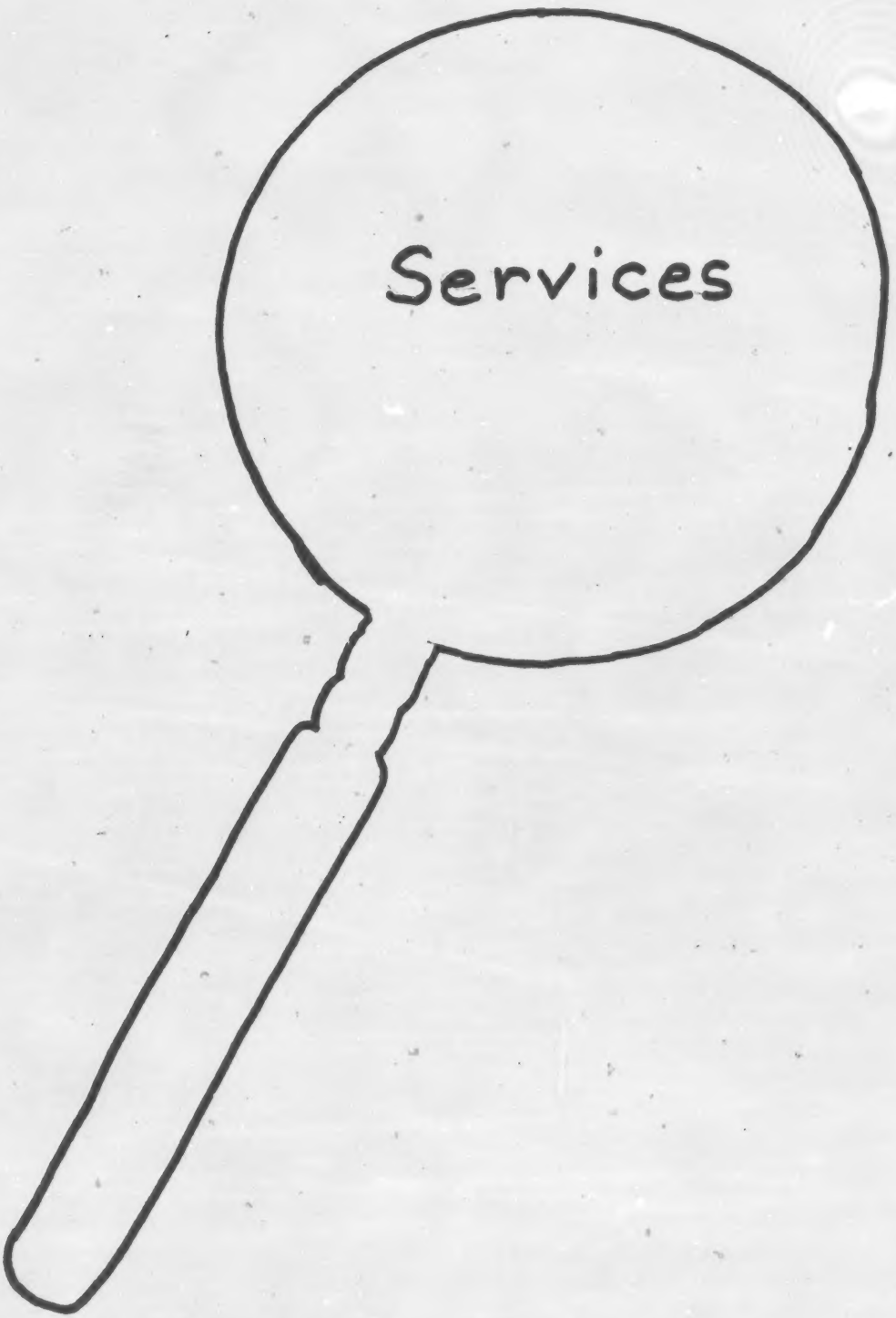
1. List the three major financial institutions in the United States.

2. Briefly describe how credit unions are organized.

3. What is the main purpose for which savings and loans were organized?

4. A commercial bank _____(is or is not) a business.

Section 2



SECTION II

You have seen that the purposes behind the establishment of banks, credit unions, and savings and loans are quite different. Also each is organized in a different way and designed to meet different requirements.

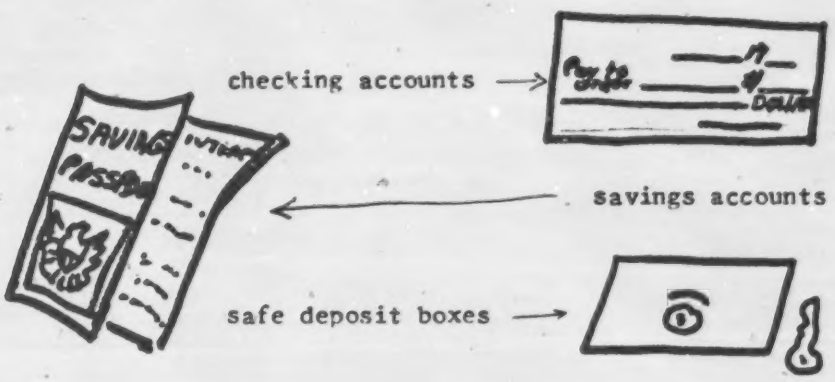
In this section of the capsule, you will examine the various services offered by these financial institutions. You will see that each has services that are slightly different from the other, but the biggest trend at the present time is how they are becoming more and more alike.

After completing this section of the capsule you will be able to:

- Identify the services provided by:
  a. commercial banks
  b. savings and loans
  c. credit unions
- Recognize that changes are taking place within these financial institutions which affect the services available to the consumer.

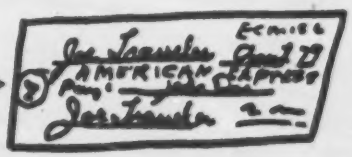
Services of a Commercial Bank

Often called a department store of finance or a full-service bank, commercial banks offer a long list of services. Among them are:



money orders

travelers's checks



student loans

financial counseling

Services of a Savings and Loan

Here are some of the services offered by a savings and loan:

savings accounts

money orders

loans for home building, buying and remodeling

student loans

savings bonds

traveler's checks

safe-deposit boxes

Services of a Credit Union

Here are some services that might be offered by a credit union.

savings accounts

loans

financial counseling

traveler's checks

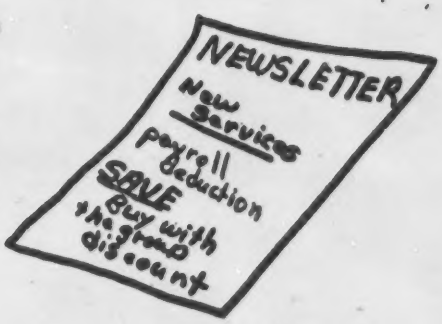
money orders

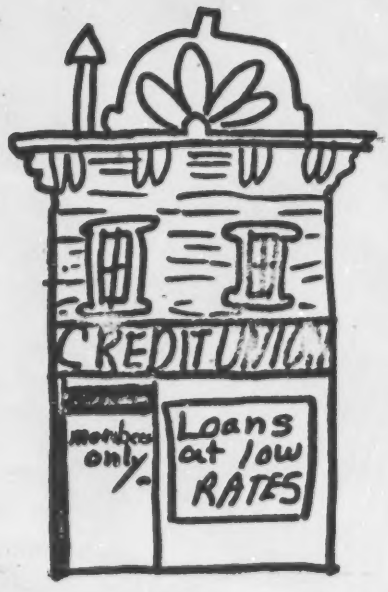
savings bonds

group discount buying

payroll deduction savings plans

newsletters to members





Select either Activity 6, Activity 7, or Activity 8 below:

Activity 6

On the green activity sheet from the expandable folder in the front of the room, list the services that may be offered by all three financial institutions. Then name the one service that is offered only by a commercial bank. After this activity has been completed, turn the paper in to your teacher.

or

Activity 7

Using the index cards that will be found in the expandable folder at the front of the room

1. Sort out those services provided by a commercial bank. Have these checked by your teacher.
2. Using the entire set of index cards, sort out the ones that show services provided by a Savings and loan. Have these checked by your teacher.
3. Again using the entire set, pull out the ones that show services that may be provided by a credit union. Have these checked by your teacher.

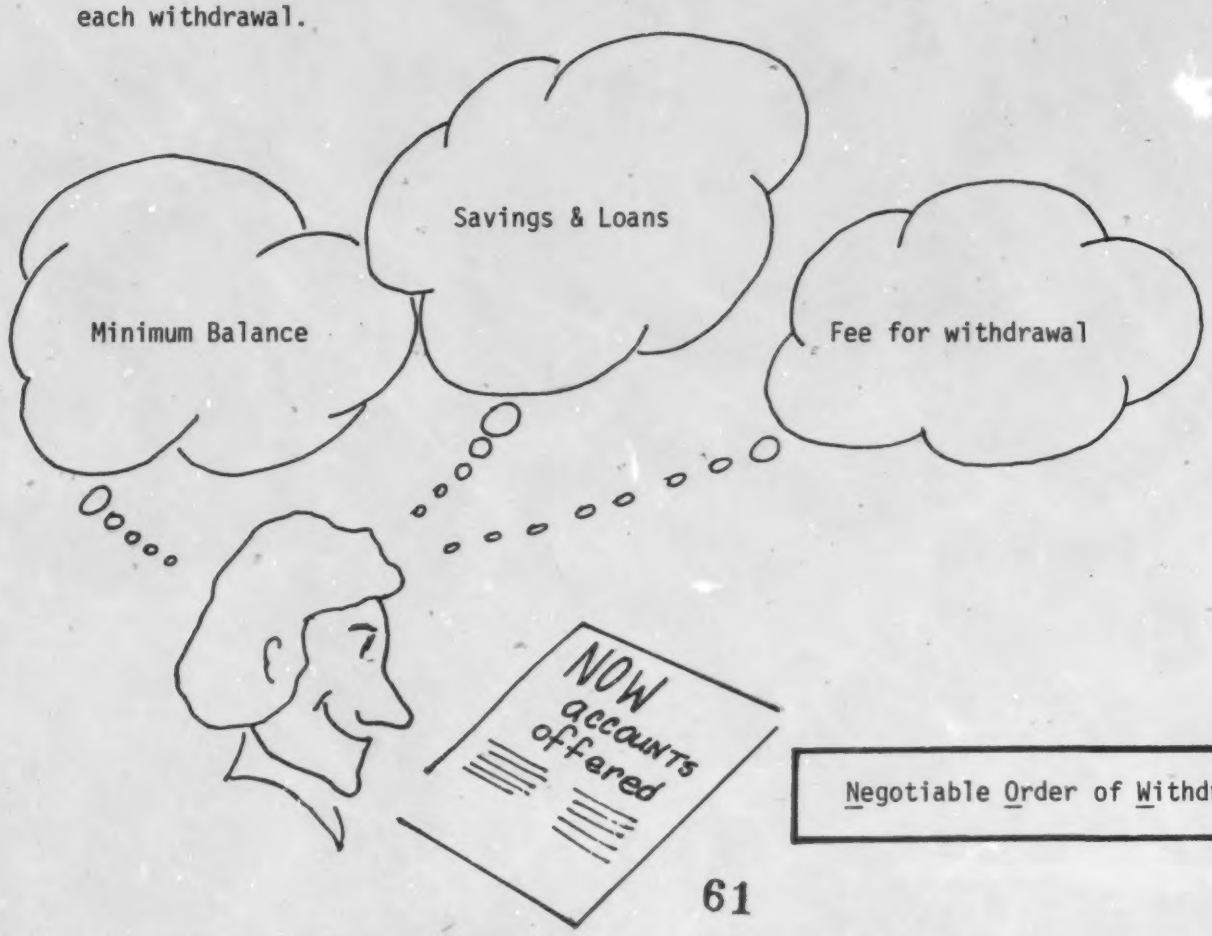
or

Activity 8

Using materials provided by your teacher, make three posters showing the services of each of the three financial services. After being checked by your teacher, these will be displayed in our classroom.

If you chose Activity 6, and if you named the checking account as the one service offered by a commercial bank, you're <u>almost</u> right. And if you did, you are right on target. Read on to find out why.

Some savings and loans are offering <u>NOW accounts</u>. The letters NOW stand for <u>N</u>egotiable <u>O</u>rder of <u>W</u>ithdrawal. A NOW account is not really a checking account, but it works like one. The big difference is that in a NOW account the savings and loan will pay interest on your deposit. This interest may be anywhere from 3 to 5 percent. You must keep a minimum amount of money in the account. This amount may vary from $1000 to $3000. If your balance falls below the minimum you may be charged a fee. You may also be charged a fee of 10 to 15 cents for each withdrawal.



<u>N</u>egotiable <u>O</u>rder of <u>W</u>ithdrawal

Commercial banks must compete with savings and loans for your money. This has been difficult because:

1) savings and loans have been allowed by law to pay ¼% more on savings accounts than banks can pay.
2) some savings and loans are offering NOW accounts which in effect pay interest on checking accounts.

This competition between banks and savings and loans is good for consumers. It allows us to choose the financial institution which can give us more money and service for the money we have deposited. To encourage this competition, laws have been changed so that banks can have automatic transfer accounts. With these accounts, funds can be transferred from savings to checking whenever they are needed. This means that the money remains in the savings account earning interest until a check comes into the bank. Then the bank transfers the amount of the check from the savings account to the checking account. Although interest is still not paid on checking accounts, funds can be transferred so easily from savings to checking, that it amounts to the same thing. Automatic transfer accounts are sometimes called combination accounts.

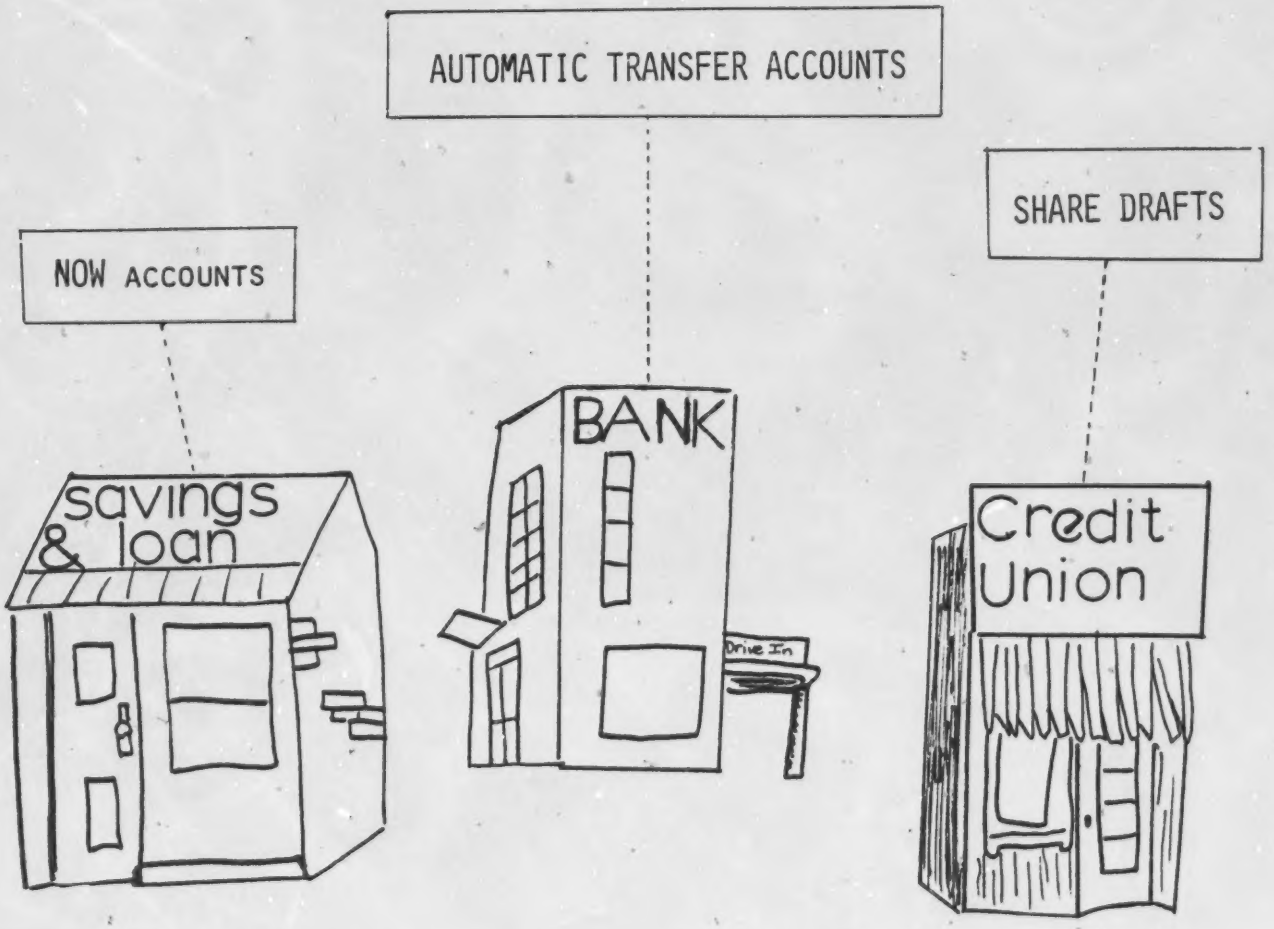
The bank often charges a fee for each transfer of funds. This is called a transaction fee. Some banks may charge a single maintenance fee each month instead of the transfer fee. Though the type of fee may differ, one or both of these fees will probably be charged unless you keep a sizeable sum on deposit.

AUTOMATIC TRANSFER ACCOUNTS

or

COMBINATION ACCOUNTS

We also see that some credit unions are now offering checking account services. Of course, like the NOW account, they're not called checking accounts. The checks are called share drafts. They resemble an ordinary check. Since they are drawn on a member's share account (savings), dividends (interest) are paid on the unused balance. Unlike savings and loans and commercial banks, there is usually no charge for this service.



Competition among banks, credit unions and savings and loans is not new. We have seen them competing for customers in many ways--gifts, longer hours, favorable loan rates for people who keep large balances in their accounts, free checking accounts, etc. The NOW accounts, automatic transfer accounts, and share drafts are just new ways of competing.

Activity 9

From the stack of newspapers and clippings at the front of the room, find advertisements for savings and loans, commercial banks, and credit unions (You should find at least eight and you should have at least one from each of the financial institutions.) Tape each ad to a separate sheet of notebook or typing paper. On each sheet list as many services as you can that are being advertised. Hand these in to your teacher who will record your score and save for your use in the next capsule.

Activity 10

You may already be familiar with many of the services offered by the various financial institutions. There may be some with which you are not familiar. To help you understand what each of these services is, complete the matching activity which you will find on a yellow activity sheet in the expandable folder in the front of the room. The key for this activity is given below. Refer to it only if you have difficulty. After completing and checking this exercise, hand it in to your teacher who will record its completion and return it to you for your review in preparing for the post-test.

Key to Activity 10

1. B
2. C
3. A
4. E
5. D
6. G
7. K
8. J
9. I
10. H
11. F

Now for the "Biggie"!

Select either Activity 11 (below) or Activity 12 (next page)

Activity 11

From a list of financial institutions provided by your teacher, choose one you would like to visit. Have your choice approved by your teacher, then proceed as follows:

Telephone the institution, and ask to speak to the public relations officer.

Introduce yourself, and explain that you are studying financial institutions as a part of your work in this class. Ask if it would be possible for you to visit the institution and ask him a few questions.

For the interview you may ask the questions that have been duplicated on the blue activity sheet that you will find in the expandable folder. You may take notes directly on that sheet, or you may record the interview on tape and make a written report from that.

Be courteous and attentive during the interview, and be sure to thank him or her at the close of the interview.

Within two or three days of the interview write a brief thank-you letter. Your teacher may have a form letter you may use.

Hand in the results of your interview, recopied neatly on another blue activity sheet. These will be kept on file for use in the next capsule where you will make some comparisons of services.

Activity 12

From a list of financial institutions provided by your teacher, choose one to which you would like to write. Have your choice approved by your teacher, then follow these guides:

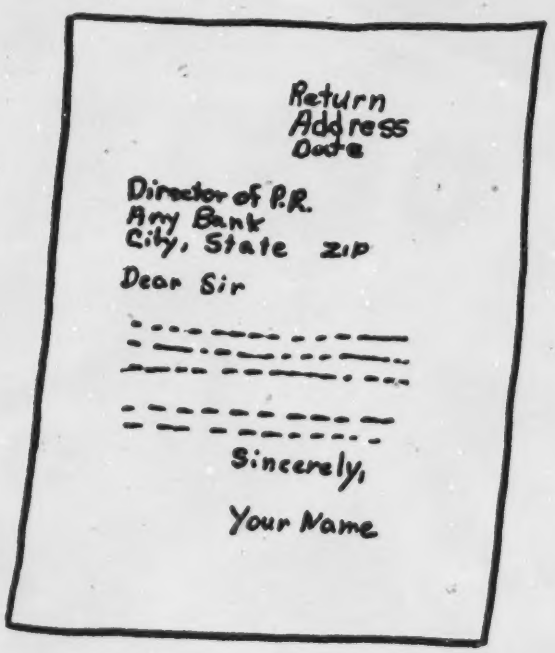
Your letter must be in proper form, typewritten, and approved by your teacher.

Enclose with the letter a list of questions. Use (but retype on white paper) the questions found on the blue activity sheet from the expandable folder. In addition to these questions, add three more that would be appropriate. Have these approved by your teacher. Leave space between the questions so the person you're writing can easily fill in his responses.

Enclose a self-addressed, stamped envelope and a "cover letter" written by your teacher.

Within two or three days after you receive your reply, write a brief thank-you letter. Your teacher may have a form letter for you to use.

As soon as you have received and read the reply, hand it in to your teacher so it may be kept on file for use in the next capsule where you will make some comparisons of services.



Self-Check (Use Self-Check, Section 2 Worksheet)

NAME THE FINANCIAL INSTITUTION(S)

1. Some offer NOW accounts _____.
2. Automatically transfers from savings to checking as you write checks so your deposits will earn interest _____.
3. Allows customers to write share drafts on their share accounts _____.
4. Provide financial counseling _____ ____and _____.
5. Sell traveler's checks _____,_____ and _____.

QUEST ACTIVITIES

Activity No. 1

Read the following article clipped from a recent edition of the Kansas City Star and answer the following questions.

Banks Seek Elimination Of Rules Favoring S&Ls

By Janet Meyer
Financial Editor

J. Rex Duwe, of Lucas, Kan., a former president of the American Bankers Association, Tuesday called on his fellow bankers to push harder to end the competitive advantage that savings associations enjoy.

Duwe, chairman of Farmers State Bank in Lucas, spoke to an ABA-sponsored community bankers conference at the Crown Center Hotel.

By law, savings and loan institutions can pay one-fourth percent more interest on savings deposits than banks can. The rate differential was permitted, under so-called Regulation Q, in recognization of the major role savings associations play in supplying funds for the housing market and because they are restricted from most of the financial activities performed by banks.

However, in recent years the line between banks, savings associations, credit unions and other financial institutions has been fading steadily. As S&Ls have entered into more bank-like activities, such as check-like accounts and broader lending powers, banks have become increasingly vocal opponents to the differential.

The differential was dropped recently, Duwe pointed out, on the $10,000 money market certificates (MMC) when interest rates are 9 percent or higher and it also has been dropped on other types of accounts.

"Isn't it time to drop the whole facade and do away with it altogether?" Duwe asked.

In response, Kenneth Thygerson, chief economist of the U.S. League of Savings Associations, Chicago, pointed out that by law S&Ls must invest 82 percent of their funds in mortgages in order to receive a tax break. "We don't have the flexibility to go into other investments when market pressures build," he said.

If Regulation Q is abolished, Thygerson added, "I would expect to see a substantial wave of consolidation (among savings and loans) and even some failures."

A major reason: "We cannot hack MMCs," Thygerson said. "They are eating us alive."

Since the six-month certificates, which are tied to 26-week Treasury bill rates, were introduced last year interest rates have risen sharply, thus making them costly vehicles for financial institutions to handle.

"MMCs have done nothing but prove that you can't finance 30-year mortgages with six-month money," Thygerson said.

1. By law, savings and loan can pay _____ more than banks on savings.

2. Why are savings and loans allowed this advantage?

3. How have savings and loans changed in recent years?

4. What percent of a savings and loan's funds must be invested in mortages in order to receive a tax break?

Quest Activity 2

Write a two-page paper describing the history of American banking.

Quest Activity 3

Prepare a bulletin board that illustrates several services of a full service bank. Be sure to include one or two that were not described in the capsule, such as trust services and money cards.

Quest Activity 4

Prepare a one-page explanation of an automatic teller machine, how it is operated and what it can be used for. Be sure to give the source of your information.

Quest Activity 5

Write a short play dramatizing the start of a commercial bank, savings and loan, or credit union.

25

Betting on Congress

Bankers Take Account Ban in Stride

business journal

By Janet Meyer
Financial Editor

Despite a great deal of time and a fair amount of money spent, officials of area financial institutions are not overly concerned with the recent federal appeals court decision that struck down the use of certain financial services.

The court ruled that new checking-savings transfer accounts, remote facilities used by savings and loans customers and sharedrafts offered by credit unions are illegal.

Officials of those institutions believe the ball has been tossed back into Congress' court and that this time legislators will take action on their own after years of haggling over the various issues involved. Earlier this week a House banking subcommittee said it planned to hold hearings on the affected services.

In its ruling, the U.S. Court of Appeals said those accounts and services had been approved illegally by the Federal Reserve Board, the Federal Home Loan Bank Board and other regulators. The agencies, the court's decision said, had taken on powers they did not have in allowing the services.

It is up to Congress to either authorize the services or give the agencies the power to do so, the decision implied.

Even among the different financial institutions, the services are controversial. The appeals court decision, for example, came on a lawsuit filed by the U.S. Savings League, an organization of savings institutions, which opposed the new combination check and savings accounts permitted for banks last November.

The American Bankers Association in turn objects to the credit unions' sharedrafts. The bankers say those are illegal because they are really interest-bearing checking accounts, which are forbidden by law.

There is about $6 billion nationwide in the combination checking and savings accounts offered by banks, but only about $700 million in credit union accounts on which the third-party payment sharedrafts could be drawn.

Although it is illegal for banks to offer interest-bearing checking accounts, the Federal Reserve Board last year authorized a new twist, the combination savings and checking accounts, which have the effect of doing just that. The regulator, however, warned banks not to advertise the service as a single account, thereby avoiding the ban on interest-paying checking.

Customers with such accounts are able to maintain a zero-balance checking account linked with a savings account. When a check is written and presented for payment, the funds are transferred automatically from the companion account. Instead of just letting his funds remain idle in the checking account, the customer has earned some interest for the period the money remained in the savings account.

One reason bankers are not overly disturbed by the court's ruling is because the service—like other parts of electronic funds transfer systems—has developed slowly.

Customers are always slow to respond to a new service and not all area banks wanted to be pioneers. But in this instance many banks that began offering the accounts also took the opportunity of repricing their services and eliminating free checking accounts. The combination checking and savings accounts require a minimum amount in either or both accounts to escape monthly charges and are not designed, as bank officials are quick to point out, for all retail customers.

Two banks that heavily promoted the service are Commerce Bank of Kansas City and United Missouri Bank of Kansas City. Neither plan to stop offering their accounts, according to officials.

Commerce, for example, spent most of its spring advertising budget on promoting the accounts, said Ms. Laura Kemper, the bank's marketing officer. It plans to keep advertising, she added.

At United Missouri, however, Harlan Everett, the marketing officer, said, "We are going to cool it a little, but we will keep offering the accounts."

Many bankers believe Congress probably will be pushed into approving the accounts because of legislators' new found concern for small savers. The court gave financial institutions until Jan. 1 to phase out their programs.

A similar feeling exists among savings and loan officials. Remote service facilities—computer access terminals located in grocery stores or shopping centers, for example—are not in wide use in the metropolitan area. Capitol Federal Savings recently stopped offering the service at four sites in Johnson County. However, the Topeka-based S&L has about 32 "Money Matic" machines in operation elsewhere. Such remote services allow customers to deposit or withdraw funds from their savings accounts at almost any time.

"We think it's a good service and there is a need for it," said Ray Culbertson, Capitol's senior vice president.

Nevertheless, S&L officials are somewhat leery that if Congress starts examining financial services again, it will take another hard look at Regulation Q, which permits thrift institutions to pay an extra one-fourth percent on savings accounts over those at banks.

In the last Congress, "Reg Q" won a two-year reprieve, despite the heavy opposition of the banking lobby, which believes the interest differential is discriminatory.

"They are always looking for ways of dropping on Reg Q," said Culbertson. "We could give it up if Congress would ever let us do something such as offer variable-rate mortgages. But they can't take away something on one side of the ledger without giving us something on the other side."

Fewer than 10 percent of the 400 credit unions in Missouri offer sharedrafts, which are similar to checks. Such accounts, too, have been slow to catch on in this area, partly because many of the smaller credit unions don't have the data-processing facilities necessary to handle them.

Since many credit unions—and the court decision only applies to those with federal charters—are staffed by volunteer help, the day-to-day booking of the share drafts also presents extra operating costs.

Nevertheless, officials of credit unions that offer the accounts expect to see Congress reaffirm their right to do so.

Quest Activity 6

Changes in laws and rules governing financial institutions occur from time to time. Summarize this article from the April 28, 1979, edition of the Kansas City Star. The summary should be at least one page long. Be sure to include in your summary the answers to these questions.

What is Regulation Q?
What is the Court's ruling regarding checking-saving transfer accounts offered by Savings and Loans?

What is the Court's ruling regarding share drafts offered by Credit Unions?

Explain how banks have been able to pay interest on checking accounts when the law said it was illegal for them to do so.

What must happen if Credit Unions, Savings and Loans, and Commercial Banks wish to continue offering share drafts and checking-saving transfer accounts?